Introduction to Economics

(a) What Economics is all about?

ORIGIN OF ECONOMICS

We have to perform various and varied activities throughout the day. Have you ever thought the ultimate end of your studies? If this question is asked from the students of class XII, they may probably answer that they want to be a doctor, an engineer, a chartered accountant, an artist, a teacher, a businessman or an economist etc. All the students may not attain their objectives. After their studies some of them may remain unemployed or underemployed and others may be suitably employed. In case, the individuals are physically and mentally fit, they try to establish themselves in certain business, profession or employment. After attaining adulthood, we have our own family and we are required to make arrangement for food, clothes, house and other necessaries of life for the members of our family. We have to activate ourselves to earn something, so that we may be able to meet the expenses. Our activities to generate income are termed as economic activities, which are responsible for the origin and development of Economics as a subject.

Economics was originally introduced as a science of statecraft. It was concerned with the collection of revenue for the state i.e., government. Advisors to the government were also required to point out the best possible way of spending the revenue.

The growth of trade, industry and commerce after industrial revolution in the eighteenth century required that the functions of the state should be specified. Political economy emerged as the result of the efforts to define functions of the state. Wealth was identified as the source and means to satisfy our various wants, so wealth was emphasised. Adam Smith, generally known as the father of Economics defined Economics as ‘science of wealth’.

What Economics is All About?

The concept of Economics has been changing during different stages of developing Economics as a subject. Let us discuss these stages.

1. Stages of Developing Economics as a Subject

Economics as a subject has developed in the following stages:
1. Wealth Concept

During the eighteenth and the early part of nineteenth century, classical economists, such as Adam Smith, J.B. Say and Walkar defined Economics as the science of wealth. Adam Smith systematised the concept in the form the book which was entitled as “An equiry into the nature and cause of the wealth of nations.” These economists stated that Economics is related to and concerned with wealth.

Excessive emphasis on wealth enabled the businessmen and industrialists to amass wealth by any means, whether fair or foul. Social reformers like Thomas, Carlyle, John Ruskin, Charles Dickens and William Morris reacted sharply to the wealth concept of Economics. They branded Economics as a dismal science, gospel of Mammon and science of bread and butter etc. Wealth concept of Economics was bitterly criticised, because it assumed wealth as an end of human activities. If it is accepted in life, there will be no place for love, affection, sympathy and patriotism. Absence of these values will make our real life a hell.

2. Welfare Concept

According to this concept, Economics is not the science of wealth but it is concerned with human welfare. It studies and emphasises wealth as a means of satisfying human wants, not as an end of human activities. Marshall was the pioneer of welfare thought. According to him, “Political Economy or Economics is the study of mankind in the ordinary business of life..... Thus it is on the one side a study of wealth and on the other, and more important side a part of the study of man.” The important features of this welfare concept are as under:

(i) Economics is the science of human welfare.
(ii) Economics is the study of mankind in the ordinary business of life.
(iii) Economics is a social science.
(iv) Economics is the study of only economic activities.

Welfare concept was also criticised by the pioneers of ‘Scarcity Concept’. According to these economists, it will be an injustice to the subject, if it is restricted to ordinary business of life, concerned with economic activities and related to human welfare only.

3. Scarcity Concept

The preponder of this concept was ‘Lionel Robbins’. According to him, “Economics is the science, which studies human behaviours as a relationship between ends and scarce means which have alternative uses.” The important features of this concept are:

(i) Economics is a positive science.
(ii) Economics is the study of human behaviour.
(iii) Our wants are unlimited.
(iv) Our resources are limited/scarc.
(v) Resources can be put to alternative uses.

According to this approach certain universal truth are regarded as the basis of economic problems. Every individual and economy has unlimited wants and scarce means to satisfy these wants. Inability to satisfy unlimited wants with limited resources creates the problems of choice making i.e., fixing priority of wants to be satisfied. As resources can be put to alternative uses, we will have to take decision as to which specific want should be satisfied with particular means. In this way, choice making or decision making is the means of tackling all these economic problems.

4. Development Concept

Scarcity concept explains the presence of economic problems. It is concerned with the positive aspect of the subject. Modern economists feel that economist should also suggest, how the scarce means should be further increased to satisfy more wants and attain good living. The propounder of this concept is Professor Samuelson, who presented the growth-oriented definition of Economics. According to him, “Economics is the study of how man and society choose, with or without the use of money to employ scarce productive resources, which could have alternative uses, to produce various commodities over time and distribute them for consumption now and in the future among various people and groups of society. The important features of this concept may be summarised as under:

(i) Problem of choice making arises due to unlimited wants and scarce means. We have to decide which wants are to be satisfied and which of them are to be deferred.

(ii) Wants have tendency to increase in the modern dynamic economic system, so the available resources should be judiciously used. Best possible efforts should also be made to increase the resources, so that increasing wants can be satisfied.

(iii) Economics is not concerned with the identification of economic problems but it should also suggest ways and means to solve the problems of unemployment, production, inflation etc.

(iv) Economists should also suggest how the resources of the economy should be distributed among various individuals and groups.

(v) Economists should also point out the plus and minus points of different economic systems.

SIGNIFICANCE/ADVANTAGES OF ECONOMICS

Economics as we have discussed earlier is concerned with the satisfaction of human wants. It is related to production, consumption and distribution of resources in the economy among individuals and groups. Economics, these days touches every one, whether he is an employee, a businessman, a tailor, an advocate, a labourer, a banker or a house-wife. Economics has got both theoretical and practical significance.

Theoretical Advantages

1. Increases in knowledge. The study of Economics helps us to understand the concepts of national income, employment, consumption, savings, capital formation, investment, price mechanism, demand and supply etc. It also enables us to understand the fiscal, monetary and industrial policy of the government.
2. Developing analytical attitude. Economics as a science creates and develops logical thinking towards various economic problems. The study of Economics makes us capable of analysing various data regarding economic events.

**Practical advantages**

Economics has got the special advantage for the following sections of our society:

1. **Significance for the consumers.** Every consumer has limited means to satisfy his unlimited wants. Economics is significant for the consumers in the sense that it tells them, how to make the best possible use of the funds available with them among different heads.

2. **Significance for producers.** Production is the effective combination of land, labour, capital and enterprise as factors of production. Producers attain the knowledge of producing maximum quantity of goods at minimum cost. Economics helps the producers in determining the remuneration of various factors of production, *i.e.*, wages to workers, rent to land, interest to capital and profit to entrepreneur. It also helps the producers in the fixation of the price of their commodity.

3. **Significance for workers.** The study of Economics enables workers to understand their significance in the production process. They are also in a position to understand the concept of wages. They discuss labour problems with the management, and save themselves from being exploited.

4. **Significance for politicians.** A good politician must have the knowledge of various economic problems, such as unemployment, rising prices, vicious circle of poverty and economic development of various sectors and regions. It is a tragedy that our politicians misuse the statistics to prove their point of view and not present the real situations.
5. **Significance for academicians.** Economics as a science develops scientific outlook. Economic theories explain the concept of consumption, production, investment and distribution. They also tell about the various economic problems, their causes, effects and their possible solutions.

6. **Significance for administrators.** Fiscal and monetary policies are formulated by the administrators, so they must know the theories of taxation and finance. It will enable them to understand the sources of public revenue and debt.

7. **Effective man-power planning.** Developing economies suffer from over-population and under-utilisation of resources. Unemployment is their chronic disease. Economics will help in making effective plans for making the best possible use of all the adult people.

8. **Helpful in fixing price.** Economic theories regarding value and equilibrium tell the producers to raise their output up to a limit, where marginal cost equals marginal revenue. It also helps the manufacturers to fix up price under different situations.

9. **Solving distribution problems.** Production as we know is the result of the combination of factors of production, such as land, labour, capital and enterprise. Land is paid rent, labour is paid wages and salaries, interest is paid on capital and the enterprise gets profit. It is very difficult to fix the reasonable remuneration payable to each factors of production. Theory of distribution in Economics suggests that every factor should be paid according to its marginal productivity.

Economics these days touches each and every aspects of human life.

**ECONOMIC THEORY**

Economics, as we know is the study of economic behaviours of human-beings, so economic theories are the statements of economic tendencies of the people. While propounding economic theory the economist formulates assumption about the economic tendency, he observes the tendency, analyses the fact and reaches the conclusion. In this way, economic theory is a proved economic fact or an observed economic truth.

**Method of Economic Theory.** The following two methods are used for propounding theory:

1. Deductive Method
2. Inductive Method

1. **Deductive Method** *(Method of logical reasoning)*

   It is a method, which goes from general to particular on the basis of general truth. We try to find out particular truth by logical discussions. In the words of Wilson Gee “By deductive method is meant the reasoning from general to particular or from universal to individual.” We accept certain general facts and use them in certain specific cases to prove our own accepted truth. For example, it is a universal truth that ‘man is mortal’, so Ram, Mohan, John, Ramanujan and Akhtar, who are also men must die. In the same way, it is an established fact that “Man is rational” so he will try to purchase lesser quantity of a particular commodity when it is costlier. Masood, who is also a man will behave in the same way and purchase lesser quantity of goods. This method assumes that the behaviour of the general public will also be the behaviour of individual person.

   Deductive method is used to propound theory regarding the economy. Studies of national income, employment, price level and international trade is made on the basis of deductive method.

   Macro economic theories are based upon deductive method. It is also known as scientific method.
2. Inductive Method

It moves from particular to general on the basis of our experience. According to Wilson Gee, "Inductive method is the process of reasoning from particular to general or from individual to universal." We study the behaviours of an individual and reach certain conclusion. We study the behaviours of other individuals also. If we reach the same conclusion, we generalise the statement as an observed truth and the theory is propounded. For example, if we find that Ranjana purchases more garments when its price falls. We observed that Sunita does the same thing. Ratnesh and Nitesh also behave in the same way. Finally, we can generalise their behaviour and an economic theory that customers have tendency to buy more of a commodity when its price falls is formed.

Economic laws of consumers’ behaviour, such as laws of diminishing utility, consumers’ surplus and equi-marginal utility have been developed on the basis of inductive method. Theories of rent, wages and interest are also based upon inductive method. This method is also known as Historical method, Concrete method, Analytical method and Realistic method. This is due to the fact that this method starts investigation of particular facts, historical events, and tries to generalise the findings of the observation for the whole economy.

Micro economic theories are formulated according to inductive method.

Construction, Modification and Discard of Economic Theory

1. Definition of terms and assumptions about the economic behaviour

2. Process of Logical reasoning

3. Prediction or Implication of theory

4. Observations and Testing of theory

5. Conclusions
   The theory accords with the factual observations or does not

   (a) If consistent with facts, no further action is required
   (b) If it does not

   Either
   (i) The theory is rejected in favour of a valid theory
   (ii) The theory is modified in the light of actual facts

   Or
INTRODUCTION TO ECONOMICS

The following steps are involved in the formulation of economic theory:

1. **Definitions of terms and assumptions about economic behaviour.** The first step in the formulation of theory is to define the terms used in the theory. These terms should be specifically identified and defined in clear words, in order to avoid any confusion and misunderstanding. We are also required to lay down conditions (known as assumptions) about behaviour of different units involved in the economic analysis just as households and firms. An economic hypothesis (Probable explanation of economic phenomenon) is also assumed for the construction of the theory.

2. **Process of logical reasoning** (deductions). The second step is to draw conclusions regarding economic phenomenon on the basis of assumptions made. For example, increase in demand of normal goods in case of fall in price and decrease in demand in case of rise in price is an assumption. We make logical analysis and reasoning while making hypothesis.

3. **Prediction and implication of theory.** Conclusions drawn are called predictions and assumptions. Economic predictions are conditional statements, because they hold good if certain assumptions are satisfied. This is why, every economic law carries the words, other things remaining the same or being equal.

4. **Testing of the theory.** The economist is further required to test his conclusion and predictions. He will have empirical observation and testing of his conclusion in the same situations. This painstaking exercise is a must before the theory could be generalised. If the testing reveals that the behaviour in all the tests is the same, the conclusions are accepted as economic theory. In the above example, we can generalise the observed truth that the price tends to fall with the increase in the supply of the normal commodities, if other things remain the same.

Conclusion

In case our empirical observation goes contrary to our conclusion the assumption is rejected in favour of a valid theory or modified in the light of actual facts.

ECONOMICS AS SCIENCE

Science is the systematised body of knowledge which creates relationship between causes and their effects. In other words, every discipline which has got certain theories, concepts and laws showing the relationship between causes and their effects is science. Economics has got its own theories, concepts and laws, so it is definitely a science though not an exact science, like Physics and Chemistry. Science is classified as follows:

1. **Positive Science**
   - What is?
   - What was?
   - What will be?

2. **Normative Science**
   - What ought to be?
   - What ought to have been?
Positive Sciences. It deals with the actual happenings. It presents the real picture of facts without any comments and suggestions. Economics also deals with the positive issues, so it is a positive science.

Positive issues/Examples of Positive Statements in Economics
(i) India is an over-populated country.
(ii) Prices in Indian economy are constantly rising.
(iii) We have adopted mixed economy.
(iv) Indian economy is developing economy.
(v) There is inequality of income in our economy.

Normative Science. It deals with norms of facts and suggests, what ought to be or what ought to have been. It promotes social and economic values. Economics is also normative science, because it suggests ways and measures to be adopted for economic betterment of the people.

Normative issues/Examples of Normative Statements in Economics
(i) The fundamental principle of economic development should be the developments of our rural India.
(ii) Agricultural income should also be taxed.
(iii) There should not be multi-national companies in consumer goods industries in our country.
(iv) Private sector should be encouraged for accelerating the pace of our industrialisation.

ECONOMIC LAWS

The term ‘law’ means statements of general tendencies. Economic laws generalise the human behaviour regarding economic activities. According to Professor Marshall, “Economic laws or statements of economic tendencies are those social laws which relate to branches of conduct in which the strength of the motives chiefly concerned can be measured by a money price.”

Characteristics of Economic Laws

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<td>5. Certain universal laws</td>
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1. Economic laws are statements of economic tendency. Economic laws, like other laws establish relationship between causes and their effect. As these laws are not cent per cent exact, so they are expressed in terms of economic tendencies. In other words, these laws explain the likelihood of human behaviour under specific conditions. For example, according to law of demand, the demand of a particular commodity will fall, if there is an increase in its price. In real life, there are certain cases, when demand of the commodity may not fall even after the increase in its price. Economic laws are not as exact as the laws of Physics and Chemistry.
2. Economic laws are hypothetical. Economic laws simply indicate the general tendency of human behaviour. These laws are not applicable in every situation. This is why, every economic law is associated with the phrase, ‘other things being equal’ or ‘other things remaining the same’. For example, the law of diminishing utility explains that utility derived from the use of the successive units of a commodity goes on falling, but this law will apply, when units are uniform, sufficient and there is always continuity in their use.

3. Economic laws are relative. Economic laws are closely related to time, place and situations. Most of the economic laws are not universal. Change of time, place and situations make then ineffective.

4. Economic laws are human laws. Economic laws may be termed as human laws, because, they are based upon human behaviour. Laboratory testing of human behaviours cannot be made, as that of matters in physics and salts in chemistry. This is why, economic laws are less exact. It is an accepted truth that every individual is different from the other individual or there are individual differences, so laws regarding human behaviours can never have universal application.

5. Certain universal laws. Certain economic laws have universal application, such as problems of scarce means and endless wants. It is equally true for every individual and economy.

Marshall has compared the economic laws with the law of tides. It shows that economic laws are less exact, seldom deficit and lack universal application. Due to the use of statistical analysis and mathematical methods economic laws are approaching towards exactness.

Assumption of Economic Laws

Economic laws are the statements of human behaviours. This is why, these laws are not as exact as the laws of natural sciences. Economist deals with human behaviours, which are never constant and exact as the behaviours of natural bodies. In addition to this weakness, the human behaviour cannot be put to laboratory testing as the natural bodies. Important assumptions are mentioned herewith:

**Assumption of Economic Laws**

1. Other things remaining the same
2. Rationality of human conduct

1. Other Things Remaining the Same

All the economic laws have the phrase, “Other things being equal” or “other things remaining the same.” It shows that the law will apply at certain place and in certain situation. For example, if the price of Cadbury chocolate falls its demand should increase considerably, but it may not increase because the demand of chocolate is affected by other factors also. It is the income, tastes, preferences and the price of the substitutes which will also affect the demand of Cadbury chocolates. In this case, the law of demand will apply only if the income of the consumers, their tastes, preferences and the price of substitutes do not change. This is why, economist has to use the phrase, “other things remaining the same”.

2. Rationality of Human Conduct

Economic laws presume that the consumers are rational. They will spend their limited resources in such a way that they may get maximum satisfaction. It has been our experience that all the consumers are not rational in their behaviour. There are certain consumers who visit a certain shop or certain type of shops or shops in certain area, knowing well that these shops have been charging comparatively more price than other shops. This extra-ordinary attitude of certain individuals makes economic laws inexact.
**Meaning and nature of economic problems.** We cannot find any single individual, family, or country in the whole world, who can fulfill all his wants. It clearly shows that wants are unlimited and means are limited. Thus, this scarcity of means in relation to wants brings forth before us the problem that how much resources should be used in satisfying different wants. In this way, one has to choose certain set of wants from among unlimited wants, which are to be satisfied by his limited resources. In Economics, this very problem of choice making is called economic problem. Explaining it Prof. Friedmen has also said that whenever limited resources are used to satisfy different ends, economic problem arises. According to Prof. Eric Roll, "The economic problem is essentially a problem arising from the necessity of choice; choice of the manner in which limited resources with the alternative uses are disposed off. It is the problem of husbandry of resources".

In brief, the problem of choice making arising out of limited means and unlimited wants is called economic problem.

**Why do Economic Problems Arise?**

Economic problems arise due to following facts of economic life:

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<td>1. Unlimited wants</td>
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<td>2. Different priorities</td>
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<td>3. Limited means</td>
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<td>4. Means having alternative uses</td>
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1. **Unlimited wants.** Human wants are unlimited. As we satisfy one want, many more new wants come up. Besides this, one cannot satisfy even one particular want for all times to come. As we fulfill a particular want at a particular time, after a certain time it crops up again. This is why, it is said that wants are not only unlimited but they are recurring in nature also. Similarly, with the development of education, knowledge, scientific advancement and economic growth wants go on increasing.

2. **Different priorities.** All wants are not equally important. Some are more important and some are less. So, a man can satisfy his different wants in order of his priorities.

3. **Limited means.** If means would have also been unlimited to satisfy unlimited wants, there would have been no economic problem. The reality of the life is different i.e., the existing supply of resources is inadequate in relation to the known desires of individuals. This gives rise to the problem of scarcity which is the basis of all economic problems.

4. **Means having alternative uses.** Means are not only limited but they can also be used for different alternative uses. For example, wood may be used for fuel, furniture, house construction and many other uses.

Thus, we have to make efforts to make adjustments between limited means having alternative uses and unlimited wants having different priorities. This gives rise to the problem of choice. It means that we have to choose, which wants should be satisfied and in what quantity. In brief, we can say that multiplicity of wants and scarcity of means are the two foundation stones of Economics. This is why, it is said that scarcity is the mother of all economic problems.
**Economising Resources**

Economising of resources means making the best possible use of resources. It does not mean miserly use of resources i.e., land, labour and capital. Unlimited wants and limited means are the fundamental realities which every society has to face. It is, therefore, necessary that the available means of the society must be used in the best possible manner, so that maximum satisfaction may be achieved.

**MEANING OF AN ECONOMY**

We find different people engaged in different activities to earn their living. These activities are concerned with the production of goods and services. Farmers, workers, shopkeepers, manufacturers, teachers, doctors, engineers, chartered accountants etc. perform their own piece of work. All of us are concerned with one or the other activity to earn certain sum of money, so that we can meet the necessities of our own and other members of our family. All those activities which are paid (remunerated in Economics terminology) are called economic activities. These activities create utilities i.e., goods and services which satisfy human wants. *Economy, in this way, is the sum total of all economic activities of the society.*

Economy consists of all agricultural, industrial, manufacturing, construction, mining, business and other productive activities. It also includes services in private institutions and government departments. Professionals like doctors, lawyers, singers, nurses and managers, etc. are also the members of economy. *Every activity which has economic motive constitutes part of economy.* According to Brown, *“Economy is the system of earning livelihood”*. Goods and services produced by the individuals of the economy determine the national income of the country. The national income indicates the standard of living of the people. In developed economies, the sum total of goods and services produced is very large, so their income and standard of living is higher. In backward economies, large numbers of hands remain idle and resources unexploited, so their output of goods and services is lesser. Their income is low and standard of living is poor.

Economies may be classified as village economy, town economy, regional economy, national and even international economy. It may also be classified as traditional and modern economies. It is also classified as developed and developing economy. On the basis of ownership, economies are also classified as capitalistic, socialistic and mixed economy.

The basic functions of an economy are production, consumption and investment. Production means creation and addition to utilities. Utility means capacity to satisfy human wants. Every good and service, which satisfies human wants is said to have utility. Consumption means the demand of final goods. Investment is the use of initial equipment and capital to produce goods and services. *Economy is, therefore, concerned with the production, consumption, distribution and investment of goods and services.*

**BASIC OR CENTRAL PROBLEMS OF ECONOMY**

Human wants are unlimited but resources to meet these wants are limited and scarce. These resources can also be put to alternative uses. Satisfaction of unlimited wants with limited means creates problem of choice making. In every economy, economic resources are limited, whereas demands are unlimited. This is why, every economy has to face and solve the following basic problems:
A. Allocation of Resources

The available resources of the society may be used to produce various commodities for different groups and in different manner. It requires that decisions regarding the following should be made:

1. **What to produce?** *(Types and amount of commodities to be produced)*

Land, labour, capital, machines, tools, equipments and natural means are limited. Every demand of every individual in the economy cannot be satisfied, so the society has to decide what commodities are to be produced and to what extent. Goods produced in an economy can be classified as consumer goods and producer goods. These goods may be further classified as single use goods and durable goods.

2. **How to produce?** *(Problem of the selection of the technique of production-choice between labour-intensive and capital-intensive techniques)*

It is undoubtedly the basic problem of the economy. If we produce one commodity, it will mean that we are neglecting the production of the other commodity. We assume that all the factors of production in the economy are fully absorbed, so if we want to increase the production of one commodity, we will have to withdraw resources from the production of the other commodity. On the basis of our requirements goods are further classified as goods for necessaries, comforts and luxuries. The economy is also faced with the problem, how much goods should be produced for necessaries, comforts and luxuries.
After the decision regarding the goods to be produced is taken, next problem arises as to what techniques should be adopted to produce commodity. Goods can be produced in large scale industries or in small-scale village and cottage industries. The economy has to decide between automatic machines and handicrafts. Every method has got its own advantages and disadvantages. Mechanisation increases the quantity of production. The quality is also improved. As it requires lesser number of workers, it results in unemployment. Handicrafts reduce unemployment but the quantity of production is lesser. The economy has to decide about the technique of production on the basis of the cost of labour and capital.

3. For whom to produce? (Problem of distribution of income)

Goods and services produced in the economy are consumed by its citizens. The individuals may belong to economically weaker sections or rich class of people. Actually this is a problem of distribution. In case of capitalism the decision is taken on the basis of the purchasing power of the consumers. Socialistic economy takes decision regarding goods and services to be produced on the basis of the requirements of the individuals.

B. Fuller Utilisation/Employment of Resources (Efficient use)

Out means and resources are limited and scarce, so they should be properly used. There should not be the wastage of these resources. The problem with the economy is how to use its available resources i.e., land, labour, capital and other resources, so that maximum production with minimum efforts and wastages be made possible. Economic development will suffer, if certain resources remain idle.

Since 1930’s after the great world depression we have started thinking of fuller utilisation of limited resources. It has been accepted that the under-utilisation or unemployment of resources is a waste, so the economy must ensure that the available resources are efficiently and effectively utilised.

Problems regarding fuller utilisation of resources and efficiency are studied under Welfare Economics.

C. Growth of Resources (Economic development)

Increase in the population is the common feature of the economy. It becomes necessary that the rate of economic development must be faster than the rate of increase in the population, so that the economic development may take place and the reasonable standard of living of the citizens can be maintained. In this connection, the economy has to decide about the rate of capital formation, investment and savings. Efforts are made for the economic development of the society, so that it may be able to face the real challenges of time. Problems concerning the growth of resources are discussed in the Developmental Economics.

Every capitalistic, socialistic and mixed economy has limited resources and unlimited wants. This is why, it has to take decision about the quantity of different commodities to be produced, techniques of production and section of the people, for whom to produce. It is also required to make the best possible use of resources, so that economic development could be achieved at faster rates.

The economic theory is classified as Micro and Macro economic theory. Micro economic theory, deals with the problems of allocation of resources in the market economy. In such economy the questions of 'what', 'how' and 'for whom' to produce are decided on the basis of price mechanism. In a market
economy goods and services are freely bought and sold. *Macro economic theory deals with the fuller utilisation of resources and other general problems of inflation, savings, investment, unemployment etc.*

In a capitalist (*i.e.*, market oriented) economy like America, these fundamental problems are solved by the market, *i.e.*, price mechanism of demand, supply and equilibrium price. Forces of demand and supply guide which goods and how much is to be produced and consumed. The demand and supply relationship will be discussed in following chapters of the book. In a socialist (*i.e.*, centrally planned) economy, these problems are solved by the government. It decides which goods and how much should be consumed and produced in the economy within a given span of time, say within a given period. In this type of economy all property is owned by the government. It also determines remuneration of various skills. Hence, the central problems are solved by central planning department of the economy.

**SUMMARISED VIEW OF THE LESSON**

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<td>Economic Laws are statements of general economic tendencies. Economic laws generalise the human behaviour regarding economic activities.</td>
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**Characteristics of Economic Laws**

1. Economic Laws are statements of economic tendencies
2. Economic Laws are hypothetical
3. Economic Laws are relative
4. Human laws

**Assumption of Economic Laws**

1. Other things remaining the same
2. Rationality of human conduct.

**Economic Problems**

The economic problem is essentially a problem arising from the necessity of choice; choice of the manner in which limited resources with the alternative uses are disposed off. It is the problem of husbandry of resources.

**Why do Economic Problems Arise?**

1. Unlimited wants
2. Different priorities
3. Limited means

**Meaning of an Economy**

Economy is the system of earning livelihood.

**Basic or Central Problems of Economy**

(A) Allocation of Resources

1. What to produce?
2. How to produce?
3. For whom to produce?

(B) Fuller utilisation/employment of resources

(C) Growth of resources.

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**Multiple Choice Questions for Online Examinations**

1. **Point out the correct alternative answer:**
   
   1. Growth concept of Economics was presented by ......
      
      (a) Adam Smith   ☐ (b) Marshall    ☐
      (c) Robbinson    ☐ (d) Samuelson. ☐
   
   2. Scarcity problem arises because our resources are ......
      
      (a) unlimited   ☐ (b) limited    ☐
      (c) sufficient   ☐ (d) vast.     ☐
   
   3. Economics was originally developed as a science of ......
      
      (a) statecraft   ☐ (b) business management ☐
      (c) wealth management ☐ (d) resource management. ☐
   
   4. ...... of resources is necessary for the development of the economy.
      
      (a) Utilisation   ☐ (b) Growth    ☐
      (c) Wastage      ☐ (d) Non-utilisation. ☐
   
   5. Resources of every economy are ......
      
      (a) sufficient   ☐ (b) limited    ☐
      (c) unlimited    ☐ (d) unutilised. ☐
6. All economic problems are due to .......
   (a) unlimited wants ☐ (b) limited means ☐
   (c) different priorities ☐ (d) all the above. ☐

7. ...... economy has to face the basic economic problems.
   (a) Capitalistic ☐ (b) Socialistic ☐
   (c) Mixed ☐ (d) Every. ☐

Ans. 1. (d) 2. (b) 3. (a) 4. (b) 5. (d) 6. (d) 7. (d).

□ EVALUATION AT A GLANCE

A. Point out at the correct alternative answer:
1. ...... is known as father of Economics. (Marshall/Adam Smith)
2. Welfare concept of Economics was presented by ...... . (Marshall/Robbins)
3. ...... concept is the modern concept of Economics. (Scarcity/Development)
4. Means are ...... but wants are ...... . (Unlimited/Scarcie)
5. By ...... method is meant generalisation from general to particular or from universal to individual. (Deductive/ Inductive)
6. Macro economic theories are based upon ...... method. (Deductive/Inductive)
7. Large scale industries are ...... industry. (Labour intensive/Capital intensive)
8. Economic problems arise due to ...... . (Limited resources/Unlimited resources)
9. Economising of resources means making the best possible use of ...... resources. (Available/Prospective)
10. We have ...... economy. (Developing/Developed)

               5. Deductive 6. Deductive
               7. Capital intensive 8. Limited resources

□ SELF ASSESSMENT QUESTIONS

1. Discuss in detail the role of Economics in Engineering industry and its influence on the technical decisions.
   (MEPA April/May 2003 (Set 4))

2. Explain briefly :
   (a) Wealth concept (b) Welfare concept (c) Scarcity concept (d) Growth concept.

3. Explain the basic problems of economy.
4. Why does economic problems arise ?
5. Explain briefly features of scarcity concept.
6. Describe briefly the assumptions of economic laws.
7. Economics is both, positive science and normative science, explain.